

Inter-Office Memo from:
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President & Publisher

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Memo to: PNG Staff

Subject: **Next Steps**

The first note of a new publisher to staff is obviously one of significance (to the writer at least), and would normally be of good cheer and much hope.

So how to begin this one?

Those of you who know me will know that I do favor a communication style that is open, direct and transparent. And one of the first things I learned as a young reporter was not to bury the lead. And since there is no other way to say it than to say it, here goes:

- **These two wonderful brands are in serious difficulty.**
- **The situation is much more challenging than I would have anticipated.**
- **I have become very aware very quickly that there will be no honeymoon period, and that future decisions will be hard and must be made with a sense of urgency.**

I am sure most of you are aware of the revenue challenges we face, but let me provide the following to help in the understanding.

Over the last few years, The Vancouver Sun and The Province have seen alarming and unprecedented revenue declines, the majority of that from traditional print advertising. Over that same period of time we have seen growth in our digital revenues, but not nearly enough to close the gap. That trend is not abating. It is accelerating. Our year-to-date financials to the end of March show traditional print revenue declines of 16 percent and there are no signs this month of any change to that trend.

Although much has been done over the same period of time to cut costs, the expense reductions have also come nowhere near closing the gap. If these trends continue, and if we don't find ways to dramatically reduce costs, the answer is clear. The business is unsustainable.

We must not let that happen. I am not here to allow that to happen.

And if there is anyone left who truly believes we can wait this out, or rely on “hope”, you are not mindful of reality. This is not just a PNG problem. This is an industry problem. The only significant difference between PNG and other markets is that we are carrying the burden not only of revenue declines, but a cost base that is much, much higher than would be considered as an industry average. I would be less than honest if I failed to point out that, as an example, our production costs are dramatically higher than those of our peers. As one small but enlightening example, we are not in the insert business because it is impossible to profitably compete due to our costs. At the same time, other divisions have flourishing insert revenues to support their enterprise.

As you know, in a recent webcast, Postmedia employees heard of the success the company is having in cutting costs while coping with the revenue declines, and our leadership reflected on that positive trend. And that is good. But the truth is that PNG performance is not keeping pace and is, in fact, an anchor on the company. We also have much more difficulty seeing the kind of significant reductions other divisions have seen through transformation projects. That just has to change if we are ever going to be successful as a business.

Now, having said all that, I want you all to know that I do believe there can be a sustainable and re-engineered business model here. These are great, trusted brands and we can together create a more promising future.

The difficulty in getting to that future is that we must take some immediate steps to stop the bleeding. And there will be more steps to follow. I would not be honest if I did not tell you that up front.

As a first step, you will soon be receiving details of another Voluntary Staff Reduction Program. I know you have had several opportunities in the past to take advantage of such programs. But this one will be different in several ways. The first is that we are depending on this program to drive dramatic staff reductions. This means that it will be open to everyone interested, barring those who are in jurisdictions requiring the company to fill positions vacated by any means, even buyouts. Put simply, a VSRP offering will be communicated in the next few days for employees currently residing in Part A (former Guild) of the collective agreement.

And, unlike past VSRP programs, it is likely that the program will be followed by an economic layoff of other employees. For those of you not familiar with the details of such a process, it basically means that the company has the opportunity to reduce costs through layoffs under terms and conditions of the collective agreement. We have not used such a program for many, many years. However, given current business conditions, it is an initiative we must consider. We will be working closely with CEP Local 2000 to ensure proper administration of such because of its complexity. These are not easy decisions, and we do recognize that such programs mean we will lose senior employees with valuable experience as well as more junior staff with future potential.

Obviously, we would prefer that the economic layoff program be limited in scope, but that decision will rest on the results of the VSRP and other significant operational considerations.

Further details on next steps will be released by our Vice President of Human Resources, Nigel Miller, in the very near future.

Now I know that all of this has the unfortunate result of taking all of our minds away from what we are here to do. But let me talk to that just a bit. We all have the honor of serving a wonderful community under two great brands, with a rich history based on quality journalism. These newspapers have a legacy of powerful writing, among the best photography in the world and—over the years—packaging and design of distinction.

That is our history. But, and I echo what Paul Godfrey has said numerous times to us all, we must focus not on the nostalgic past, but on the urgent need for change. He has clearly articulated a future for Postmedia that will be one of a smaller company, with reduced costs to deal with continuing declines, while working toward an improved and lasting business model. If that is true of Postmedia, it is true of Pacific Newspaper Group.

With all that in mind, here is what I am asking of all of you. We are actually in a simple business. It is about creating great content, packaging it, building an audience around it, and selling that audience to advertisers. So please do your very best to ignore the noise and put aside the fear of change. The mindset within our universe should always be consumer facing: we need to all be thinking of the reader and the advertiser as a first priority every day.

Margaret Sullivan, public editor of the New York Times, said it very well in a recent column. “Our challenges are complex,” she wrote, “but, in the end...it comes down to the person who chooses to subscribe, who clicks on the advertising, who finds the reporting impossible.....to do without.”

We are a content, sales and marketing company. That is where our priorities should be, and where mine will be. If our content is not unique and impossible to do without, we must change that. If our advertising relationships are not unique, and our sales proposition not compelling, we must change that. If we think they are already very good, we must up the game.

Our strategic plan, our “house”, rests on the following pillars.

- **We must become an audience first, four-platform organization.**
- **We must sell on audience not one single platform.**
- **We must execute a multi-platform subscription plan under which our readers pay for our work.**
- **And we must do all of this while continuing to aggressively cut costs.**

More than three decades ago, as a young deskier I arrived from Ottawa to work the night shift at the Vancouver Sun. At that time, there was little in the way of competition. We were an

afternoon newspaper delivered to homes by schoolchildren. There was no digital universe, there were no free newspapers, no Google, no Facebook, no smartphones, no tablets.

I was attracted at the time to the vibrancy and history of the Vancouver newspaper world. The legacy of both is a long history of provocative and brilliant writing by columnists and reporters; photographers and artists of world renown; breaking scoops as part of the DNA; sports writing could make you weep with pleasure, and newspapers were unashamedly "Vancouver proud." And the newspapers were full of advertising. Classified advertising often covered two full sections and the issue was not selling it, but finding space to accommodate it. Even then, it must be noted, the newspapers struggled financially due to the high cost base not associated with most other markets. And, as noted, that has not changed.

In a sense that is the nostalgic past. But in another it is not. Our "spot on the wall", our goal, remains the same to connect, and to monetize that connection. The significant difference is the way that connection begins: early in the day, throughout the day, over a variety of digital devices and—of course—finally, in print.

Thanks for taking the time to read this. As much as possible, I will continue to communicate openly regarding our challenges and our solutions.

And in closing I have one last suggestion. Please understand that we need your help. And if you do anything every day of the week let it be this: ask yourself if you are part of the solution or are willing to be part of the solution. If you aren't part of the solution, ask yourself why that is. We are all in this together and we are all fighting not only for the future of The Vancouver Sun and The Province, but for the lives and well-being of our families.

Take care,



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